Dividend Investors: Should You Buy Suncor Energy Inc.?

Description

“It looks like the inside of an outhouse after the lightning hit.”

That’s how my Calgary buddy described business in the energy patch. Over the past six months, oil benchmark Western Canadian Select has fallen by more than 60%. Today, prices hover just barely above US$35 per barrel, nearly a six-year low.

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This has taken down energy stocks of all shapes and sizes, and with earnings in free fall, investors are worried about their income. Thanks to falling crude prices, a number of producers like **Enerplus** and **Canadian Oil Sands** have slashed their payouts.

But some energy stocks are still cranking out income. Oil sands giant **Suncor Energy Inc.** (TSX:SU)(NYSE:SU) hasn’t wavered once in its commitment to reward shareholders. So, if you’re looking for steady dividends, here are three reasons to consider this stock.

1. Integrated business

Not all energy stocks are created equal.

Exploration and production companies are entirely dependent on high oil prices. When crude falls, these stocks get crushed.

But that’s not necessarily true with integrated majors like Suncor. This company has giant downstream operations—industry lingo for refining and marketing energy products.

These businesses act like an insurance policy of sorts. When oil prices decline, refiners can purchase their feedstock at a discount. That enables them to work in bigger margins than they would otherwise earn.

That’s how things have played out so far throughout this downturn. Last quarter, Suncor’s cash flow from operations fell 35% year over year. However, without bigger profits from the company’s refining business, it could’ve been much worse.

That means Suncor has the raw size to survive the industry's current doldrums and continue to crank out dividends for shareholders.

2. Shareholder first management team

Chief Executive Steve Williams is a great capital allocator.

Since taking the helm of the company in 2011, he has repurchased nearly 10% of Suncor's outstanding shares and more than doubled the size of the dividend. In essence, Williams is taking money out of a lousy business like the oil sands and giving it back to shareholders so they can earn better returns elsewhere.

Now, this might sound like common sense, but most executives would rather build a larger business empire at shareholders' expense—and this can really eat into investors' returns over the long haul.

Of course, if oil prices go to US$25 per barrel, Suncor will be a bad investment. Given that I have no idea where crude is going next, I'm more concerned with who can manage my money best through the ups and downs in the business cycle. Williams is proving himself to be the best steward of shareholder capital in the oil patch.

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3. Reasonable price

Since mid-June, Suncor shares have plunged nearly 20%. Shareholders have watched $12 billion in wealth get wiped out.

Time to panic? Hardly. If you believe in buying wonderful businesses when Mr. Market throws a sale, then there has never been a better time to scoop up shares on the cheap.

Today, Suncor trades at under 20 times forward earnings. That's a tad below the stock's historical average and well in line with its peers.

Bottom line, Suncor is a wonderful business that deserves a spot in any income portfolio. I expect patient shareholders will almost certainly be rewarded with growing profits, dividend payments, and a stock price that—though unpredictable in the short term—should increase over time.

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